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ABSTRACT

This report provides selling brokers' guidelines for the successful expansion of their operations outlining a basic method of preparing an expansion plan. Topic headings are: The Pitfalls of Expansion (The Language of Business, Timely Financial Reporting, Regulatory Agencies of Government, Preoccupation with the Facade of Business, A Business Is a Group of People); Guidelines for Expansion (Market Evaluation, Stages of Development, Transition to Management, Cost Computations); The Key to Expansion (Policy and Operation, Learning Financial Control, Exercising Financial Control); Tools for Expansion (The Sales Forecast, The Flexible Budget, The Pro Forma Income Statement, The Pro Forma Cash Flow Statement, The Pro Forma Balance Sheet); and Concluding Comments. The appendix includes a Checklist of Real Estate Marketing Considerations; Expansion Realty, Inc., a Case Study; and Pro Forma Worksheets. (HD)

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EXPANSION

A Plan For Success

Texas Real Estate Research Center

College of Agriculture

Texas A&M University

College Station, Texas

U S DEPARTMENT OF HEALTH, EDUCATION & WELFARE
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PREFACE

The real estate brokerage business historically has been characterized by relative ease of entry. Little demonstrated skill, knowledge or capital was necessary at the outset. There were no clearly defined standards by which to measure performance, organization or operation of the business.

According to a comprehensive study of the characteristics of Texas real estate licensees, approximately 87 percent of all brokers in Texas employ fewer than three sales associates and approximately 94 percent of all brokers in Texas have no branch offices. 1/ Based on these statistics, it appears a majority of real estate brokers in Texas are "selling brokers." Selling brokers continue to depend on their own sales production as their primary source of income as compared with "managing brokers" who spend the majority of their time managing other people or other managers of their firm and who derive their income primarily from their firm's bottom line.

The many new changes confronting real estate brokerage firms today require brokers who manage their own firms to be more skilled in management practices. As a real estate brokerage firm expands by adding sales associates and branch offices, so do management's challenges.

Management consists of two broad operational concepts -- planning and controlling. Personal interviews with real estate brokers reveal that many have employed neither concept in expanding their operations. Instead of planning their expansion, most real estate brokers seem to make this decision a matter of happenstance. Real estate brokers who tend to manage on a "crisis basis" in their current operations, compound their problems as they attempt to expand their firm.

1/ *Dr. A. W. Wright, Characteristics of the Real Estate Licensees in Texas, (Texas Real Estate Research Center, 1976, p. vii.)*

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Good real estate markets usually give rise to unskilled managers because there is less need to know and employ modern management concepts. Money and profits are generated in spite of the manager's activities. In poor real estate markets, the lack of planning too often results in closed offices with sales associates looking for jobs with other real estate firms or in other industries.

This report provides selling brokers' guidelines for the successful expansion of their operations. It outlines a basic method of preparing an "expansion plan" which, if employed, can be very important in determining future success.

TABLE OF CONTENTS

	Page
PREFACE	ii
THE PITFALLS OF EXPANSION	1
The Language Of Business	1
Timely Financial Reporting	2
Regulatory Agencies Of Government	2
Preoccupation With The Facade Of Business	3
A Business Is A Group Of People	3
GUIDELINES FOR EXPANSION	4
Market Evaluation	4
Stages Of Development	7
Transition To Management	11
Cost Computations	12
THE KEY TO EXPANSION	14
Policy And Operation	14
Learning Financial Control	14
Exercising Financial Control	15
TOOLS FOR EXPANSION	16
Step 1. The Sales Forecast	16
Step 2. The Flexible Budget	17
Step 3. The Pro Forma Income Statement	20
Step 4. The Pro Forma Cash Flow Statement	20
Step 5. The Pro Forma Balance Sheet	20
CONCLUDING COMMENTS	29
APPENDIX A -- Checklist of Real Estate Marketing Considerations	
APPENDIX B -- Expansion Realty, Inc., Case Study	
APPENDIX C -- Pro Forma Worksheets	

THE PITFALLS OF EXPANSION

The failure of many real estate brokers attempting to expand their firm is an unnecessary tragedy. The reason for failure is evident: the broker seldom prepares and plans adequately prior to expanding his firm. He does not take pencil and paper in hand to plan his expansion in sufficient detail to have a clear idea of what he is going to do, what it is going to cost him and what his added investment will return to him.

Inherent with the lack of proper planning are other managerial deficiencies contributing to financial trouble during the expansion process:

1. The broker lacks fluency in the language of business -- the financial statements.
2. He fails to obtain timely financial reports.
3. He lacks understanding of the regulatory agencies of government.
4. He tends to be preoccupied with the facade of business rather than the substance of business.
5. He fails to recognize the full meaning of the business.

The Language Of Business

In almost every real estate brokerage firm in financial trouble, the broker is unable to understand or interpret his financial statements -- the language of his business. Typically, he refers such conversations to his accountant who may not be completely knowledgeable of the business. The accountant may record the transactions and prepare the financial statements, but the managing broker must be able to interpret the statements and determine courses of action.

The "cash flow forecast" is the broker's most important financial tool. It tells him if he can pay his expenses each month. Many real estate brokers and a surprising

number of accountants fail to recognize and emphasize the fundamental importance of the cash flow forecast. It is imperative for a broker to estimate how long it will take for a branch office to break even or generate a positive cash flow. The success or failure of an expansion program depends largely on the reliability of the cash flow forecast.

Timely Financial Reporting

The broker who is in financial trouble often fails to recognize that his business is operating in a dynamic environment and is, therefore, susceptible to changing conditions in the marketplace. Typically, the broker has failed to obtain the most current financial reports available to him to make timely decisions affecting the success of his brokerage firm. The cycle of recording and reporting business transactions implies a built-in time delay in securing current financial reports. Additionally, it takes time to analyze statements and determine whether new courses of action are necessary. It takes time to realize the benefits of any improved courses of action and their subsequent effects as reflected on the financial statements. Therefore, it is essential for the sucessful broker who manages his firm to be cognizant at all times of the financial position of his company.

Regulatory Agencies Of Government

The broker in financial trouble may fail to understand his company's legal structure relative to the various governmental agencies regulating his real estate practice. All brokerage firms are legally structured as a corporation, a partnership or a sole proprietorship and as such must comply with the applicable accounting and tax laws. In addition, those brokerage firms which have employees other than sales associates, who are independent contractors, are subject to regulation by federal and state labor laws with regards to hiring practices, minimum wage laws and payroll reporting. Further, brokers may be subject to local agencies administering such areas as building

codes, zoning ordinances and sign ordinances. It is imperative that every managing broker be knowledgeable of and comply with these laws and know the effects these laws and regulations will have on any planned expansion.

Preoccupation With The Facade Of Business

The substance of business for a real estate brokerage firm is clients who are willing to pay the company for its services. All too often the emphasis for a planned expansion is on decorating and equipping a beautiful new office. Although certainly necessary, decor and equipment do not generate revenue -- they consume capital. Capital must grow through retained earnings or the business will die. The successful broker must be able to use his capital in such a way as to increase his firm's revenue and maximize the return on his investment.

A Business Is A Group Of People

Brokers who own small firms sometimes fail to recognize the full meaning of what a business is. A business is a group of people working together in order to satisfy their own individual needs, goals and aspirations. When any of the people involved (sales associates, employees, etc.) find that they cannot satisfy their personal needs, goals and aspirations, they cease working to the benefit of the group. Successful brokers understand that a business is a group of people and assist their sales associates and employees with achieving their individual goals.

GUIDELINES FOR EXPANSION

Before a broker considers the expansion of his operations and the future challenges of additional management responsibility, he should ask himself the following three questions:

1. What is the future of real estate in my area?
   A broker should take a good look at his market area. Does it have potential for future profits, or is it an area which has grown stagnant?
2. Where does my real estate firm fit into the future projection?
   Once a broker has committed himself to an area, he should take a look at his company to see how it fits into that projection. Is it the right type of company for the area, and does it fill all the needs the broker thinks will be challenging him in the future?
3. Will my firm make more money?
   Certainly, one of the prime motivations to expand a real estate operation is to make additional profit. A broker must consider if his firm is organized properly to return the risk dollar he must put forth to expand his operations.

Market Evaluation

Expansion, either by adding sales associates or by opening branch offices in neighboring locales, has typically been a matter of spot judgment by real estate brokerage firms. Decisions to expand have often been made based on the broker's awareness of the listings or buyers available in the marketplace. Frequently, the timetable for expansion has been based on the availability of working capital. The entire process of expansion has typically been based on a "gut feel" approach. It cannot be denied that this approach may be effective because it has resulted in some extraordinary successes; however, a thorough evaluation of the market greatly increases the probability for success.

A broker's checklist for evaluating the market should include the following questions:

What is the population today, and what is projected in five years, ten years, twenty years?

The growth potential of a real estate company is definitely affected by the overall increase or decrease in population as recorded by the Census Bureau. Any decrease should be cause for concern about what the long-term trend might be.

It is essential that each broker have some concept of the total number of available units for sale during any given period. This information will indicate whether the market is sufficiently strong to support expansion.

What has been the housing turnover trend the last five years?

Turnover statistics can best be obtained by checking such figures as water meter turn-ons and telephone company installations. These turnover figures, when applied to the total housing inventory, will give some indication of the total market. After applying a factor on the percentage a broker might reasonably expect to obtain, a decision can be reached as to whether there is enough potential in that marketplace to support expansion.

What are the zoning laws, land-use restrictions and land improvement costs for sewer, water and other municipal services?

Stringent building codes, zoning ordinances and "no-growth" policies can seriously obstruct a marketplace. On the other hand, if there are some reasonable, sensible master plans or flexible codes that will permit easy construction and maximum use of land, they might indicate that expansion is timely.

What are the current and projected tax structures?

Any broker planning expansion will want to study the tax load potential that might be placed on the community. Such a study should take into consideration the

projected demand for school services which account for a major portion of the tax load. A low tax rate can be a mixed blessing as low taxes are not necessarily desirable if adequate services and good administration are not being provided.

What is the demand for labor in the community?

The level of demand for labor influences the marketplace for real estate. A new demand for labor may enlarge the real estate market and indicate to a broker the need to expand his firm.

What is the geographic potential of the community?

A broker considering expansion should note the geographic factors which influence the growth of a given real estate market. Such factors as accessibility to transportation by waterways or rail, raw material resources, power supplies, airports and interstate highways are particularly important. The location of the community in relation to surrounding markets and the desirability of the climate and other environmental conditions are also extremely important.

What is the community's economic base for expansion?

The expansion potential of an area is greatly influenced by its economic base. A highly diversified economic base makes good economic sense for expansion. A community with a single unit natural resource base can also be a good area for expansion. Because of today's shortages of food and natural energy, farm-oriented communities and areas with access to sources of fuel have tremendous expansion potential.

What is the strength of the competition in the area?

Expansion within an area or to a new area can be greatly affected by the type of competition a broker may encounter. An in-depth study of other brokers in the area, the kind of services they offer and the success they are experiencing can be a strong indication of whether or not the area is desirable for expansion.

When should the expansion begin?

One of the critical factors in expanding an office so that it shows maximum profit in the shortest period of time is timing. In the past decade, the national economy has fluctuated greatly. Considering the cyclical nature of the economy, expansion should begin on the upswing to take maximum advantage of improving market conditions.

Even if all these aforementioned factors seem positive, expansion should never be made without adequate managerial support. Many promising operations start in good locations with attractive offices and all the background services that could be provided and then fail because of inadequate management. Conversely, there are numerous examples of success on the part of brokers where both the facilities and marketplace were not especially strong; yet, a skilled manager was able to pull all the elements together to make the operation successful.

Stages Of Development

In a real estate broker's haste to grow, he should consider the following critical organizational development questions:

Where has our organization been?
Where is our organization now?
Where is our organization going?

So often, real estate brokers fail to realize that many clues to the future success of their expansion lie within their own current organizations and their evolving stages of development. Growth and expansion usually cause changes within an organization. These changes often create a sense of uneasiness in the organization. Such uneasiness often leads to a people crisis or a financial crisis. Since past experiences often shape future growth of organizations, it is important for brokers to understand their organizational development problems and to realize that these

"growing pains" are part of natural evolution.

Where has our organization been?

Questionnaires and personal interviews have revealed that most real estate brokers do not enter the business as a result of any definite plan. Typically, brokers enter the real estate profession purely by chance and are not formally trained in the business. The broker begins his career as a licensed salesman, gains some experience and then leaves to open his own brokerage firm. The opening of his real estate firm is characterized by an almost total lack of formal management, frequent but informal communication and the company's responding to the market rather than controlling it.

At this stage of the business, emphasis on management is almost nonexistent because the broker is primarily concerned with creating real estate services and working to market them. He is busily occupied securing listings and making sales and working to build up a successful market for future referrals for more listings and sales. Even when he seems anxious to hire qualified sales associates, his main effort is devoted to his own market activities.

The broker is deal oriented -- that is, he spends most of his time listing and selling real estate. He usually disdains any type of management activity because he feels he does not have enough time for such things. Thus, his brokerage firm is almost a company without management. The few sales associates who work for selling brokers find that communication is infrequent and informal. No formal sales meetings or communications are used because they are considered a waste of time and take away from efforts to list and sell properties.

Selling brokers' activities are controlled by the immediate marketplace. As they begin their merchandising program and follow-up listings and sales, they react to the marketplace. They seldon take time to decide how they are going

to control it. If the public wants one type of service one week, they will provide it; if next week the public asks for a different type of service, the owner also will respond to that demand.

Certainly, good management responds to the public; however, good managers attempt to have some control over the marketplace through their merchandising impact. Beginning brokers do not do this, but respond instead to what the market offers them or asks of them.

Where is our organization now?

Before a real estate broker considers expanding his operation, he should make an appraisal of his organization and resources. In his analysis he should consider the following:

1. Operating Facilities
2. Financial Structure
    a. Working Capital
    b. Long-term Debt
    c. Net Worth
    d. Leverage Position
    e. Liquidity
    f. Past Financial Performance
        1. Income Statement
        2. Balance Sheet
3. Strengths and Limitations of Human Resources
    a. Broker (Management)
    b. Sales Associates
    c. Clerical
    d. Outside Advisory (Attorney, Accountant, etc.)

4. Expertise of Services

   a. Residential
   b. Commercial
   c. Industrial
   d. Land and Lots
   e. Property Management
   f. Syndication
   g. Other

5. Administrative Capability

6. Financial Management Expertise

Where is our organization going?

After making an appraisal of his organization and resources, the broker should reassess his objectives concerning the questions of growth. Staying small or growing large is a question every real estate broker who has his own company must answer. What are the benefits and the drawbacks of growing larger or staying small? Some of the main reasons why some brokers decide to expand their operations are:

Profit

One basic measurement influencing a broker's decision to expand must be profit: If I expand, what will the increase in profit be, measured against the risk involved? (However, at the outset, the reasons for the desired growth should be considered as objectively as possible above and beyond the profit motive.)

Advertising and Training

A larger organization normally provides a broker economies of scale for the costs of advertising and training sales associates.

Image

A larger organization may enable a broker to enjoy a more prestigious posture in the community.

Security

The larger the company, the less damage is done when sales associates leave to start their own companies.

Diversification

A broker who expands his operation may be able to provide clients with a "full-service" real estate firm.

Continuity

Normally larger firms have more flexibility to make plans for the continuity of the company in the event of the death, retirement or disability of the principal. Provisions for the continuation of the business are normally done through incorporation, formation of partnerships, power-of-attorney or through cross-life insurance on the principals of the firm.

Natural Evolution

The broker who is interested in growth is constantly striving to keep his organization attuned to the changes in the marketplace. He realizes that success may be a temporary state, and change is an inevitable part of growth. When a real estate firm is successful and has a strong economic base, the broker will generally start his organization into a new growth cycle by opening a new office or recruiting new sales associates.

Transition To Management

The transition from selling to managing is never easy. It is always difficult to change from performing tasks to supervising other people to do those tasks.

The broker's job description will vary according to the new organization of his firm. Chances are he will be making the transition from a selling broker to a managing broker. A managing broker spends most of his time bringing good people into the business, training them and helping them to achieve company and individual goals.

Although a small portion of his income continues to come from his own sales production, the major part of his income is derived from the firm's bottom line.

As his firm grows, the broker can often delegate more non-selling responsibilities to others than might be possible in a small operation. Even part-time sales work restricts the amount of time a broker can devote to planning growth, setting objectives, planning and controlling the budget and measuring results on a regular basis. The broker's skillful use of the talents of his staff to assist with these tasks can add immeasurably to his success as a manager.

Cost Computations

It is essential for a broker opening a branch office to make several basic cost computations. He should know how many sales will be necessary to break even. He should also determine how many sales associates will be required to work at the new office, and he should make sure their number is in relationship to the potential of the marketplace.

Sales Needed to Break Even

To compute the number of sales needed to break even, multiply the average income per sale anticipated times the unknown number of sales needed which will equal the known overhead. For example, if the average anticipated income per sale is $1,000 times (y) for the unknown number of sales, = $8,000 for known overhead, eight sales are necessary just to break even.

Estimate the Unknown Projected Income

The anticipated average listing price times the commission rate times the number of listings projected to be obtained times the percentage of the listings that should be sold, divided by the office commission splits equal projected income. For example, at a $40,000 average listing price times 6 percent commission = $2,400 times 16 listings (an average of eight sales associates averaging two listings per month)

equals $38,400 times 75 percent of the listings sold = $28,800 ÷ 2 (to represent a 50/50 company split) = $14,400 projected income. (Note: The above formula does not include any compensation to cooperating brokers.)

When a broker can estimate the projected income or the projected number of sales required, he is then able to convert to the number of sales associates needed.

Economics of the Proposed Office

If the proposed branch office economics indicate the broker needs $8,000 per month to cover overhead and the average sales commission generates approximately $1,000 to his sales associates on a 50/50 split, eight sales per month are needed to cover basic expenses. If the broker's experience has been approximately two sales per month per sales associate, he will need four sales associates just to break even.

Relationship to Desk Cost

Another check is the relationship of number of sales associates to desk cost. Desk cost is the average expense per sales associate per period. For example, if a broker's office expense (excluding commissions, co-op and MLS fees) for the last year was $96,000 (including a reasonable salary for the broker)* and if he had 10 sales associates, his desk cost would be $9,600 per person per year or $800 per person per month.

If desk cost is approximately $800 per month with either one or two sales associates per desk and they produce that amount of money plus an additional return for profit, then the minimum number of sales associates needed can be justified by the desk cost itself. The number of sales associates has to be related to the economic overhead of the office.

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* *The total office overhead must include an expense for managing the office.*

THE KEY TO EXPANSION

The single most effective way for a real estate broker to prevent his expanding real estate brokerage firm from failing is to prepare a plan for the expansion of his business. Planning provides knowledge and insight but most important, it provides a learning experience. A plan for expansion provides a means to make a reasonable investment decision. It should look far enough into the future to demonstrate a level of performance representing the stable operation of the company. The real estate broker's plan will reveal his personality, style, judgment, foresight and pragmatism. A plan prepared for him is not adequate; it must be his plan. He must know it, understand it and be able to defend it.

Policy And Operation

During the early stages of the expansion of his company, the real estate broker will be faced with a crisis per day and a problem per hour. His solutions to these problems create policy, which must be changed, rationalized and generalized at some later date. The plan for expansion, properly prepared, will provide him with the solution to many of these problems in advance and permit his judgment in crises to be guided by prior policy decisions. A policy and procedures manual published and operable at time of expansion will almost certainly minimize the crisis per day and problem per hour.

Learning Financial Control

There is no better way for a real estate broker to plan successfully the expansion of his firm than to describe his business in detailed, month-by-month income statements and corresponding cash flow statements and balance sheets, including detailed substantiating footnotes.

No computerized management game, case study or work experience can demonstrate to a real estate broker the dynamics of expanding his business better than

the preparation of an expansion plan in great detail. No other exercise can demonstrate so succinctly the necessity for timely, accurate and detailed financial reports and the tremendous importance of the cash flow forecast.

The real estate broker is not likely to submit to such discipline readily. If he does submit to it just once, he will improve immensely his probability for successfully expanding his firm. This submission to forecasting is a test of his balance between realism and sense of urgency. Learning occurs at two points in the process. The first point occurs when, having prepared the statements, the broker finds an error or he changes something in his planned income statement and corrects the other statements to conform. He immediately will learn the dynamics of his expanding business and the interaction among the three statements.

The second point occurs when the broker finds that his balance sheet does not balance. Everyone who has done it once will remember the resulting intimacy with the income statement, the cash flow statement and the balance sheet. Thereafter, the accountant will be able to communicate directly with the broker. Financial control will be exercised by the person who should exercise it, the broker. (Incidentally, this will permit more effective and economical utilization of accountants).

Exercising Financial Control

The plan for expansion should be detailed and substantiated. Every claim, conclusion or prophecy must be verified to the fullest extent possible. Such a plan will have only one item which is in doubt--the "sales forecast". Given a sales forecast, all costs of doing business are determinable.

Published financial reports, like history books, provide knowledge and insight, but the business is always operating in an accounting period not yet reported. Forecasting is an important management tool. Frequent and timely reports are imperative to check progress against forecasts, but management lives and operates in the future. Only the future can be managed.

TOOLS FOR EXPANSION

The expansion plan expresses the broker's overall operating and financing objectives. It outlines company goals and steps for achieving them. This planning process compels brokers to think ahead and to prepare for changing conditions. An expansion plan is a tool used to set standards of performance, motivate personnel toward goals, measure results and direct attention to the areas that most need investigation.

The cornerstone of the expansion is the sales forecast. All current operating and financial planning is generally tied to the expected volume of sales. The basic steps in preparing a plan for expansion are:

Step 1. The Sales Forecast

The sales forecast is a prediction of future sales based on the broker's total knowledge, experience and compiled market data. The forecast is based on the underlying logic of three types of activities: listing, selling and promotion. All three imply costs and, either separately or in combination, they determine the unit and total dollar sales of a forecast.

The progression of deriving the sales forecast depends on answering three important questions:

1. How many properties actually can be listed for sale?
2. How many properties actually can be sold in light of what can be listed?
3. How does #2 compare with the total available market? Is this reasonable?

Since the number of listings is only limited by the total available market, a systematic plan of promotional and people activities must be planned to generate sales.

General Comments

-- Projections should be three to five years in length.
-- The first two years should be month-by-month with the following years shown either quarterly or annually.
-- A detailed footnote should accompany the forecast and describe the logic or reasoning.
-- There is no such thing as the "right way" to derive a sales forecast. If the broker draws on his experience and the data collected, his logic is what makes the forecast his forecast. (See Appendix A)
-- Never take the total available market, assume some percentage of the market can be captured and divide by 12 to arrive at monthly sales. This approach shows no logic and can completely offset a superb job in collecting data about the market.

The sales forecast is the most critical step in planning the expansion of the business. All costs can and should be estimated accurately but are only as good as the sales forecast. The critical point to understand when preparing detailed projections is that it is more important to determine realistically the activities (in dollar terms) that support specific sales levels than to predict precisely sales volume in a particular time period.

Step 2. The Flexible Budget

To expand his firm successfully, the broker must be able to plan and control his business operation. A budget is a financial formula to operate within for a future period. To exercise the proper control, the broker must make continuous reviews and comparisons to the budget so that undesirable variances can be noted and corrective action taken.

Although a target budget will be kept in mind, a flexible budget is more meaningful. This budget will reflect expenses for each level of revenue produced. The flexible budget is far more realistic and usable than a fixed budget because it takes into account both fixed and variable expenses of the operation to be controlled. A variable expense (i.e., sales commission) is constant per unit, and its total dollar amount changes proportionally with changes in activity of volume. A fixed expense (i.e., rent), on a per unit basis, varies inversely with activity or volume changes, but is constant in total dollar amount.

In a real estate operation, the following groups of expenses can be variable depending on sales volume:

advertising
selling expenses
commissions.

Depending on the operation, the following expenses are relatively fixed:

sales management salaries and fees
other salaries
communications
operating expenses (interest, depreciation, property taxes, auto expense, insurance, dues, etc.).

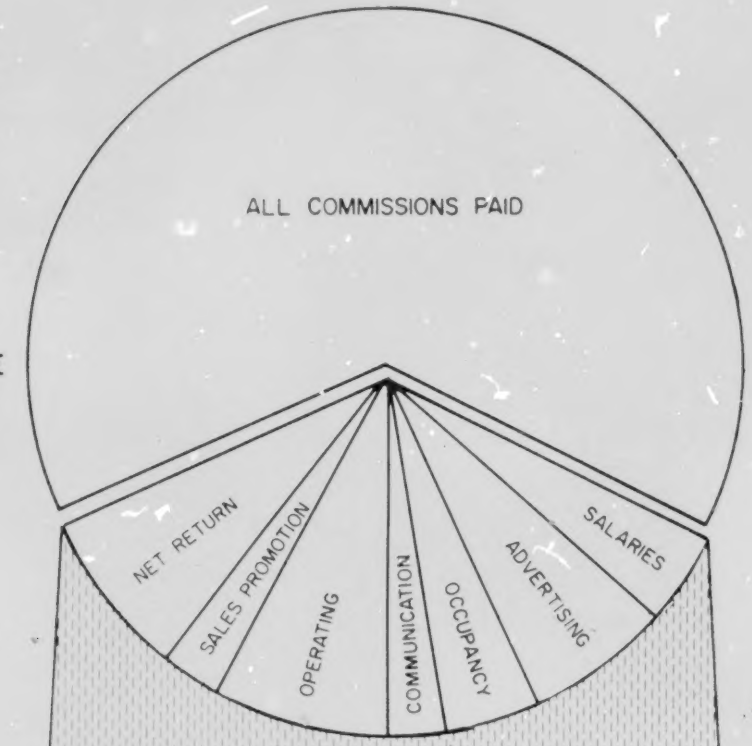
A helpful concept in preparing a flexible budget is the concept of the "company dollar". The company dollar is the amount of income left to the broker after all commissions have been paid. By knowing what his company dollar is, a broker can gain an accurate picture of his office expenses in relation to his income and can use this information to plan his budget accordingly.

To give a complete picture of company spending and aid in future budget analysis and planning, the company dollar can be broken down into expenses. Each expense can then be converted into a percentage of the company dollar. Profit also comes from the company dollar, so when profit plus all expenses are totaled, they should

THE COMPANY DOLLAR CONCEPT

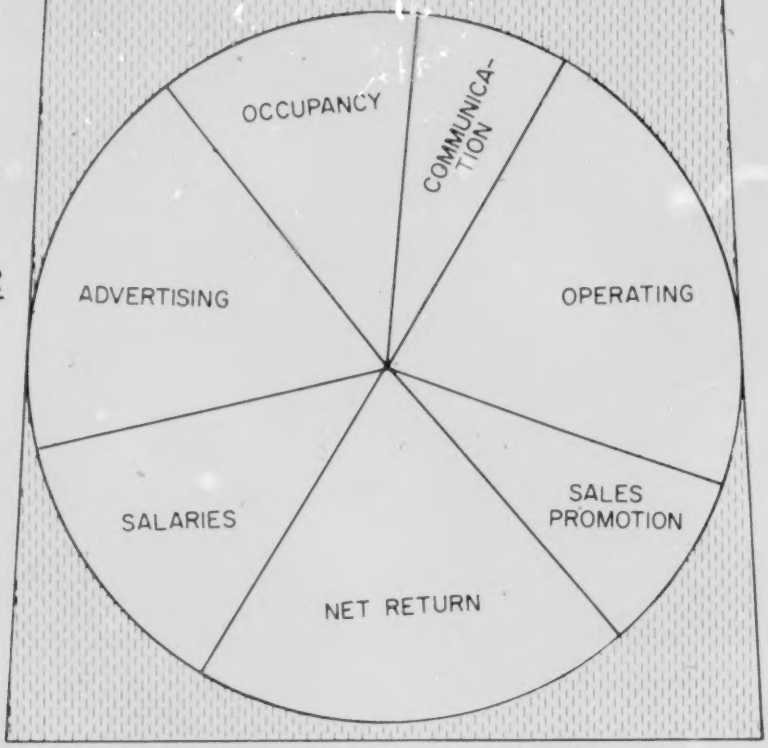
GROSS DOLLAR

(ALL INCOME RECEIVED BY THE OFFICE)



COMPANY DOLLAR

(AMOUNT LEFT TO MANAGEMENT AFTER PAYMENT OF ALL COMMISIONS)



total 100 percent of the company dollar. Once a broker knows what his company dollar is, he can reevaluate expenses and, if necessary, adjust his future planning to align with his goals.

Step 3. The Pro Forma Income Statement

The purpose of the pro forma income statement is to portray the ongoing operation of the company during expansion in dollar terms for a specific period. Exhibit 1 is an example of the recommended format for the first year. Exhibit 2 is a set of instructions for completing the pro forma income statement.

Step 4. The Pro Forma Cash Flow Statement

The pro forma cash flow statement is used to project the month-to-month effects on the cash position according to the level of sales projected by the sales forecast. The pro forma cash flow statement will help the broker avoid having unnecessary idle cash or unnecessary cash deficiences. A planned financial program keeps cash balances in a reasonable relationship to cash needs. Exhibit 3 is an example of the recommended format for the first year. Exhibit 4 is a set of instructions for completing the pro forma cash flow statement.

Exhibits 5 and 6 are to be used in steps 3 and 4. Exhibit 5 is a description of how to prepare footnotes for the pro forma income and cash flow statements. These footnotes are an integral part of the planning process and should be done in detail. Exhibit 6 is a list of items commonly found on income and cash flow statements of real estate brokerage firms.

Step 5. The Pro Forma Balance Sheet

The pro forma balance sheet is the logical culmination of the expansion plan and should provide a complete reconciliation between the beginning balance sheet, the pro forma income statement and the pro forma cash flow statement. There are

several points for the broker to keep in mind concerning the preparation and use of the pro forma balance sheet (statement of financial position) during formalized planning for expansion:

-- Balance sheets are cumulative and reflect all the transactions that have occurred since the beginning of the company.
-- The ending balance sheet for the present operation is the beginning balance sheet for the expansion.
-- The pro forma income statements are the links between projected balance sheets for expansion.
-- The real value of an operating real estate brokerage company is not its net worth, but the current value of its probable future earning power.
-- The three balance sheet relationships that normally have the greatest importance to a banker financing the expansion of a real estate firm are the (1) current ratio, (2) the equity ratio and (3) amount of working capital.

$$(1)\ \text{Current Ratio} = \frac{\text{total current assets}}{\text{total current liabilities}}$$

$$(2)\ \text{Equity Ratio} = \frac{\text{total assets - total liabilities}}{\text{total assets}}$$

(3) Working Capital = total current assets - total current liabilities

EXHIBIT 1

PRO FORMA INCOME STATEMENT
19x_

Percent of Sales	Line Items	Month 1	Month 12	Total
	Revenues			
	Sales Revenues			
	1) Sales & Listing Fees''			
	Total Revenues			
	LESS: Distribution of Fees			
	2) Internal Sales Staff Commissions			
	3) Owner's Listing Fees & Sales Commissions			
	4) Cooperating Brokers' Commissions			
	Total Distribution			
	BALANCE AVAILABLE FOR COMPANY DOLLAR			
	COMPANY DOLLAR			
	Expenses			
	Advertising			
	5) Newspaper Classified			
	6) Institutional			
	7) Direct Mail & Brochures			
	8) Radio			
	9) Television			
	10) Yellow Pages			
	11) Other			
	Total Advertising			
	Sales Promotion			
	12) Courses, Training & Conferences			
	13) Travel & Conventions			
	14) Entertainment			
	15) Contributions & Service Activities			
	16) Sales Awards & Contests			
	17) Institutional Gifts			
	18) Other			
	Total Sales Promotion			
	Salaries			
	19) Sales Manager			
	20) Clerical			
	21) Secretarial			
	22) Other Staff			
	23) Payroll Taxes			
	24) Employee Benefits			
	Total Salaries			
	Communications			
	25) Telephone			
	26) Answering Service			
	27) Other			
	Total Communications			
	Occupancy			
	28) Rent			
	29) Utilities			
	30) Janitor Service & Maintenance			
	Total Occupancy			
	Operating			
	31) Licenses			
	32) Dues			
	33) Insurance			
	34) Legal & Accounting			
	35) Taxes			
	36) Equipment (Maintenance & Depr.)			
	37) Supplies			
	38) Postage			
	39) Interest on Business Loans			
	40) Bad Debts (Advances to Sales Associates)			
	41) Auto Expense			
	42) Other			
	Total Operating			
	Total Expenses			
	Summary			
	Company Dollar			
	LESS: Total Expenses			
	Owner's Return on Company Dollar			
	LESS: Owner's Withdrawals			
	Net Return on Investment			

EXHIBIT 2

INSTRUCTIONS FOR COMPLETING
THE PRO FORMA INCOME STATEMENT

1. Enter all line items (sales, commissions, advertising, etc.) month by month. Round off all entries to the nearest dollar.
2. Add monthly entries for each line item and enter totals.
3. Add all Revenues for each month and enter totals on Total Revenues line.
4. Add all Distribution of Fees for each month and enter on Total Distribution line.
5. Revenues - Distribution of Fees = Balance Available for Company Dollar. Enter on the appropriate line.
6. Add all expenses and enter totals on Total Expenses line.
7. Summarize the Company Dollar less Total Expenses = the Owner's Return on the Company Dollar less Owner's Withdrawals = Net Return on Investment.

EXHIBIT 3

PRO FORMA CASH FLOW STATEMENT
19x_

Line Items	Month 1	Month 12	Total
Receipts			
Owner's Capital Contribution (If Any)			
Loans to Company (If Any)			
Proceeds From Sale of Stock (If Any)			
Sales Receipts			
1) Sales & Listing Fees			
Total Receipts			
LESS: Distribution of Fees			
2) Internal Sales Staff Commissions			
3) Manager's Listing Fees & Sales Commissions			
4) Cooperating Broker' Commissions			
Total Distribution			
BALANCE AVAILABLE FOR COMPANY DOLLAR			
COMPANY DOLLAR			
Disbursements			
Advertising			
5) Newspaper Classified			
6) Institutional			
7) Direct Mail & Brochures			
8) Radio			
9) Television			
10) Yellow Pages			
11) Other			
Total Advertising			
Sales Promotion			
12) Courses, Training & Conferences			
13) Travel & Conventions			
14) Entertainment			
15) Contributions & Service Activities			
16) Sales Awards & Contests			
17) Institutional Gifts			
18) Other			
Total Sales Promotion			
Salaries			
19) Sales Manager			
20) Clerical			
21) Secretarial			
22) Other Staff			
23) Payroll Taxes			
24) Employees Benefits			
Total Salaries			
Communications			
25) Telephone			
26) Answering Service			
27) Other			
Total Communications			
Occupancy			
28) Rent			
29) Utilities			
30) Janitor Service & Maintenance			
Total Occupancy			
Operating			
31) Licenses			
32) Dues			
33) Insurance			
34) Legal & Accounting			
35) Taxes			
36) Equipment			
37) Supplies			
38) Postage			
39) Interest on Business Loans			
40) Bad Debts (Advances to Sales Associates)			
41) Deposits			
42) Auto Expense			
43) Other			
Total Operating			
Total Disbursements			
Total Cash Flow			
Beginning Cash Balance			
Ending Cash Balance			

EXHIBIT 4

INSTRUCTIONS FOR COMPLETING
A PRO FORMA CASH FLOW STATEMENT

1. Enter all line items (sales, commissions, advertising, etc.) month by month. Round all entries to the nearest dollar.
2. Add monthly entries for each line item and enter totals.
3. Add all Receipts for each month and enter totals on Total Receipts line.
4. Add all Distribution of Fees for each month and enter totals on Total Distribution line.
5. Receipts - Distribution of Fees = Balance Available for Company Dollar. Enter on the appropriate line.
6. Add all Disbursements for each month and enter totals on Total Disbursements line.
7. Total Cash Flow = Total Receipts - Total Distribution of Fees = Company Dollar - Total Disbursements. Enter on Total Cash Flow line. This may be a negative number. If so, enclose in brackets like this: (1000).
8. Enter Beginning Cash Balance for Month 1. This figure will equal the Ending Cash Balance from the last month of the preceding year, or zero for a start-up situation.
9. Ending Cash Balance = Beginning Cash Balance + Total Cash Flow. Enter results on Ending Cash Balance line.
10. The Ending Cash Balance = Beginning Cash Balance for the next month. Repeat steps 9 and 10 for all twelve months.
11. Add all line item totals in column 13 and enter on the Total Cash Flow line.
12. Add all monthly Total Cash Flow entries. This total should agree with the total in step 11. If it does not, an addition or subtraction error has been made.

EXHIBIT 5

FOOTNOTES

Every line item should be numbered and have a corresponding footnote on a separate sheet.

Pro Forma Income Statement

Footnotes for the pro forma income statement should contain the following information:

1. Title corresponding to the line item (rent, telephone, etc.)
2. Brief description of the line item involved.
3. Cost (per unit, if applicable).
4. How the numbers on the income statement were determined.
5. How costs change with time, if applicable.
6. Source of cost information.

If the footnote is correctly prepared, it should be possible to reproduce the income statement by using the footnotes alone.

Pro Forma Cash Flow Statement

Footnotes for the pro forma cash flow statement should contain the following information:

1. Title corresponding to line item (rent, telephone, etc.)
2. All information needed in income statement footnote, if line item is not also on income statement.
3. Terms of payment (paid in advance, cash expense, 30-day terms, etc.)

EXHIBIT 6

ITEMS COMMONLY FOUND ON
INCOME AND CASH FLOW STATEMENTS
OF REAL ESTATE BROKERAGE FIRMS

	Income Statement Only	Cash Flow Statement Only	Both Statements
Sales & Listing Fees (Include Co-op Fees)			x
Internal Sales Staff Commissions			x
Owner's Listing Fees & Sales Commissions			x
Cooperating Brokers' Commissions			x
Newspaper Classified Advertising			x
Institutional Advertising			x
Direct Mail & Brochures			x
Radio Advertising			x
Television Advertising			x
Yellow Pages Advertising			x
Courses, Training & Conferences			x
Travel & Conventions			x
Entertainment			x
Contributions & Service Activities			x
Sales Awards & Contests			x
Institutional Gifts To Clients & Prospects			x
Sales Managers' Salaries			x
Clerical			x
Secretarial			x

	Income Statement Only	Cash Flow Statement Only	Both Statements
Other Staff			x
Payroll Taxes			x
Employee Benefits			x
Telephone			x
Rent			x
Utilities			x
Janitor Services & Maintenance			x
Licenses			x
Dues			x
Insurance			x
Legal & Accounting			x
Taxes			x
Equipment Rental			x
Equipment Maintenance			x
Equipment Depreciation	x		
Supplies			x
Postage			x
Interest On Business Loans			x
Bad Debts (Include Losses on Advances to Sales Associates)			x
Auto Expense			x
Miscellaneous			x
Loans To Company		x	
Proceeds From Sale Of Stock		x	
Repayment Of Loan Principal		x	
Deposits (Rent, Telephone, Utility, etc.)		x	

CONCLUDING COMMENTS

The need for detailed planning before expanding the size of a real estate brokerage operation is crucial; and the need for control becomes even more critical as the size and scope of a real estate brokerage firm increases. A thorough evaluation of the market, an in-depth appraisal of the broker's existing organization and resources and the preparation of detailed financial projections are essential for the successful expansion of a real estate brokerage firm.

No plan for expansion is perfect. Nothing ever goes exactly according to plan, but this does not diminish the validity of the plan or any of its virtues. With cooperation of the educational institutions, regulatory agencies of government, congress and business and financial communities, opportunities for real estate brokers to expand, gain additional economic freedom and determine their own destiny will multiply.

APPENDIX A

Checklist of Real Estate Marketing Considerations

I. Customers and Market Factors

A. The Nature of the Market (Each separate market, i.e., residential single family)

1. Number of potential buyers--by market region.

2. Number of actual buyers--by market region.

3. Characteristics of buyers--ages, income, occupation, education, family size, sex, race, etc.

4. Characteristics of users, if different from buyers (i.e. rental property).

5. Where buyers and users live (currently)--region, city, rural, suburb, etc. Changes in population concentration.

6. Where buyers buy--through a broker or from the owner.

7. Where buyers seek information or shop--newspaper listing, brokers, word of mouth, peers, signs, etc.

8. How buyers buy--amount of shopping, research, number of agents, etc.

9. Why buyers buy--motivations, needs, perceptions (investment, shelter, security, status, etc.).

10. Who influences purchase decision--husband, wife, children, peers, agent, etc.

11. Unfavorable attitudes of buyers toward certain alternatives (duplexes, mobile homes, small lot, size under 1,500 sq. ft., etc.) single wall, no frills, etc.

12. Indications of changes in buying habits (smaller no-frills houses, multiple unit dwellings, etc.).

B. The Structure of the Market

1. Number of competitors (for that specific market).

2. Degree of competition (do competitors aim at same market).

3. Characteristics of competing firms--size, services, promotion, etc.

II. The Product (Real Property & Service)

A. Land

1. Location (traffic flow, schools, neighborhood, etc.).

2. Physical description (trees, size, soil, flood plain, etc.).

B. Structures

1. Sizes (sq. ft., stories, etc.).

2. Quality--utility vs. luxury.

3. Various models and styles.

C. Service

1. To buyer

a. Market information

b. Buying function (eliminating unsuitable choices)

c. Financing

d. Closing

2. To seller

a. Market information

b. Pricing

c. Promotion

d. Contacts--third party negotiation role

e. Closing

3. Place

a. Number & size of offices

b. Office locations

1. Traffic
2. Visibility
3. Image
4. Physical Facility
5. Population in surrounding area

4. Promotion

a. Personal selling

1. Recruiting and selection methods
2. Training procedures--initial and continuing
3. Supervision procedures
4. Evaluation of performance
5. Use of sales personnel as information source
6. Compensation plan
7. Retention

b. Advertising

1. Size and time units--effectiveness
2. Appeals & themes--(needs of target market)
3. Use of presentation techniques (colors, image, etc.)
4. Media selection
5. Campaign duration (reconsider approach periodically)

c. Sales Promotion (Types of Activity)

1. Deals, premiums, bulletins, portfolios, etc.
2. Co-op arrangements
3. Social contacts
4. Charities, community activities

d. Publicity

1. Volume

2. Nature--releases, clippings, mentions

3. Media

e. Price

1. Buyer: in terms of

a. different segments

b. services

2. Seller: in terms of

a. different segments

b. services

3. Price vs. service (less service lower price)

4. Price vs. volume (price elasticity)

APPENDIX B

INTRODUCTION

The following case study, entitled Expansion Realty, Inc., is presented for the purpose of providing the reader an abbreviated example of a basic planning process for opening a branch office. The case can be used by a broker as a guideline to prepare his own plan for expansion.

EXPANSION REALTY, INC.

The Planning Process
for Opening a Branch Office

The Firm

Expansion Realty, Inc., is a two-year-old, one-office, residential real estate brokerage company. Mr. John Q. Starr is the founder, owner and president of the company. Mr. Starr manages the office in addition to his own selling and listing activities.

Mr. Starr began his operation in January, 1975, with three full-time sales associates and one secretary/bookkeeper. During his second year of operation, Mr. Starr increased the size of his sales force to nine full-time sales associates.

Beginning his third year, Mr. Starr is considering opening a branch office. He has recently completed an evaluation of the market, an appraisal of his own organization and resources, a sales forecast, a flexible budget and pro forma income and cash flow statements for the new office.

The Community

Expansion Realty, Inc., is located in College Park, Texas. College Park is a university town with a population of 100,000, of which 25,000 are college students. Mr. Starr's office is located in the northeast quadrant of the city and in the center of a nice residential area. The community is growing south and population projections indicate a steady growth for the next 15 years. The university's enrollment is growing rapidly and is the main reason for the community's growth. Mr. Starr is considering locating his branch office in an area known as Park Forest in the southwest quadrant of the city.

Market Evaluation

Mr. Starr's evaluation of the market provided him the following information:

-- The population of College Part is projected to double by 1990.
-- Each year for the last five years, an average of 20 percent of the total single-family residential housing inventory has been resold.
-- The community has a sensible master plan that includes reasonable building codes, logical zoning ordinances and a positive attitude toward growth.
-- The community has an excellent school system with adequate services and a good administration in relation to the tax load.
-- The demand for labor in the community is growing proportionally with the population increases.
-- There are no geographic factors that would prohibit the community's potential for growth.
-- Although the university makes up the largest portion of the community's economic base, College Park is sufficiently diversified to make good economic sense for expansion.
-- There are 30 real estate brokerage firms in the community, varying in size from individual brokers to one firm with two offices and 20 sales associates. No one firm has more than 10 percent of the total market.
-- The leading national economic indexes and projections indicate that the economy and the demand for housing will be strong for at least the next 18 months. The branch office should be opened in late spring to take advantage of the normal up turn in business during the summer months.

Appraisal of Organization and Resources

Mr. Starr evaluated the adequacy of his present operating facilities, the strengths and weaknesses of his sales associates, employees and professional

advisors, the expertise of his firm's services and his own administrative and financial management abilities. Based on his evaluation, Mr. Starr decided to proceed with his plans for opening a branch office, subject only to an analysis of his firm's financial structure. Expansion Realty's balance sheet as of December 31, 1976, and income statement for the firm's second year of operation are presented on the following page.

EXPANSION REALTY, INC.

Balance Sheet
Dec. 31, 1976

Assets		
Current Assets		
Cash	$20,000	
Marketable Securities	15,000	
Total Current Assets		$ 35,000
Fixed Assets		
Office (land/buildings)	50,000	
Furniture & Equipment	15,000	
Total Fixed Assets		65,000
Total Assets		$100,000
Liabilities		
Current Liabilities		
Short-term loan-operations	$10,000	
Total Current Liabilities		$ 10,000
Long-Term Liabilities		
Mortgages Payable-Office	40,000	
Other long-term liabilities	5,000	
Total long-term liabilities		45,000
Total Liabilities		$ 55,000
Equity		
Common Stock	$15,000	
Retained Earnings	30,000	
Total Equity		45,000
Total Liabilities/Equity		$100,000

EXPANSION REALTY, INC.
Income Statement
For the Year Ending December 31, 1976

	Dollars	Percent of Sales
Revenues		
Sales Revenues		
1) Sales & Listing Fees	$185,000	100.0
Total Revenues	$185,000	100.0
LESS: Distribution of Fees		
2) Internal Sales Staff Commissions	$ 68,450	37.0
3) Owner's Listing Fees & Sales Commissions	3,700	2.0
4) Cooperating Brokers Commissions	$ 29,600	16.0
Total Distribution	$101,750	55.0
BALANCE AVAILABLE FOR COMPANY DOLLAR	$ 83,250	45.0
COMPANY DOLLAR	$ 83,250	100.0
Expenses		
Advertising		
5) Newspaper Classified	$ 6,660	8.0
6) Institutional	1,665	2.0
7) Direct Mail & Brochures	832	1.0
8) Radio	0	0.0
9) Television	0	0.0
10) Yellow Pages	416	0.5
11) Other	1,249	1.5
Total Advertising	$ 10,822	13.0
Sales Promotion		
12) Courses, Training & Conferences	$ 832	1.0
13) Travel & Conventions	1,665	2.0
14) Entertainment	832	1.0
15) Contributions & Service Activities	416	0.5
16) Sales Awards & Contests	832	1.0
17) Institutional Gifts	416	0.5
18) Other	416	0.5
Total Sales Promotion	$ 5,409	6.5
Salaries		
19) Sales Manager (Mr. Starr)	$ 0	0.0
20) Clerical	0	0.0
21) Secretarial	6,660	8.0
22) Other Staff	0	0.0
23) Payroll Taxes	1,250	1.5
24) Employee Benefits	832	1.0
Total Salaries	$ 8,742	10.5
Communications		
25) Telephone	$ 4,578	5.5
26) Answering Service	0	0.0
27) Other	0	0.0
Total Communications	$ 4,578	5.5
Occupancy		
28) Rent	$ 4,995	6.0
29) Utilities	1,665	2.0
30) Janitor Service & Maintenance	832	1.0
Total Occupancy	$ 7,492	9.0
Operating		
31) Licenses	$ 40	0.0
32) Dues	832	1.0
33) Insurance	832	1.0
34) Legal & Accounting	1,248	1.5
35) Taxes	416	0.5
36) Equipment (Maintenance & Depr.)	1,248	1.5
37) Supplies	3,330	4.0
38) Postage	832	1.0
39) Interest on Business Loans	832	1.0
40) Bad Debts (Advances to Sales Associates)	416	0.5
41) Auto Expense	2,497	3.0
42) Other	416	0.5
Total Operating	$ 12,939	15.5
Total Expenses	49,982	60.0
Summary		
Company Dollar	$ 83,250	100.0
LESS: Total Expenses	49,982	60.0
Owner's Return on Company Dollar	$ 33,268	40.0
LESS: Owner's Withdrawals	21,000	25.0
Net Return on Investment	$ 12,268	15.0

Since Mr. Starr was considering expansion, liquidity and his debt position were of particular importance. Consequently, the following balance sheet relationships were very significant to him:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{\$35,000}{10,000} = \underline{3.5 \text{ to } 1.0}$$

$$\text{Equity Ratio} = \frac{\text{Total Assets - Total Liabilities}}{\text{Total Assets}} = \frac{\$100,000 - 55,000}{100,000} = \frac{\$45,000}{100,000} = \underline{45\%}$$

$$\text{Working Capital} = \text{Current Assets - Current Liabilities} =$$
$$\$35,000 - \$10,000 = \underline{\$25,000}$$

Sales Forecast

While making his market evaluation, Mr. Starr collected the following data about the target market for his branch office:

1. The target market is the southern half of the community and consists of an area of approximately five square miles.
2. There are approximately 5,000 single-family homes located in the target market.
3. The average value of the single-family homes in the target market is $45,000.
4. Each year for the last five years, an average of 20 percent of the homes in the target market have been resold, and this trend is projected to continue.
5. Each year for the last five years, approximately 250 new homes have been built in the target market, and the trend is projected to continue.

Based on the data collected, his two years of experience in the business, his knowledge of the community, his own organization and the competition, Mr. Starr made the following assumptions:

1. The total available market for listings and sales will consist of approximately 20 percent (1,000) of the 5,000 pre-owned, single-family homes

in the target market.

2. Expansion Realty, Inc., will not enter the market of selling new homes for builders.
3. Approximately 86 percent (860) of the 1,000 pre-owned homes available will be listed and sold by real estate brokers. The other 14 percent will be sold by owner.
4. Expansion Realty, Inc., can realistically capture 14 percent (120 homes) of the target market (860 homes) that will be listed and sold by real estate brokers.

Based on the data collected and his assumption, Mr. Starr calculated the total sales potential and commission income for the first year of his branch office operation as follows:

120 Homes x $45,000 Avg. Sales Price = $5,400,000 Sales Volume

$5,400,000 Sales Volume x * 5% Effective Commission Rate = $270,000 Commission Income

* Mr. Starr's effective commission rate recognizes that some of the sales in College Park are co-operative transactions with other real estate brokers. The customary commission rate in College Park is 6% split evenly between the two brokers on co-op transactions. The effective commission rate of 5% is a weighted average of transactions with full 6% commissions and those transactions with a split commission.

The following schedule is Mr. Starr's monthly sales forecast for his branch offices' first year of operation:

EXPANSION REALTY, INC.
* SALES FORECAST
PARK FOREST OFFICE
YEAR 1

MONTH	NUMBER OF TRANSACTIONS	MONTHLY VOLUME	EFFECTIVE COMMISSION RATE	GROSS INCOME
April	4	$ 180,000	5%	$ 9,000
May	8	360,000	5%	18,000
June	12	540,000	5%	27,000
July	16	720,000	5%	36,000
August	21	945,000	5%	47,250
September	14	630,000	5%	31,500
October	9	405,000	5%	20,250
November	7	315,000	5%	15,750
December	5	225,000	5%	11,250
January	10	450,000	5%	22,500
February	6	270,000	5%	13,500
March	8	360,000	5%	18,000
TOTAL	120	$5,400,000		$270,000

*- Average home sales price = $45,000
- Transactions include sales with cooperating brokers
- The effective commission rate of 5% is a weighted average that takes into account that the company receives a 3% commission on co-op transactions rather than 6%.

Logic

1) April and May will be slower months for sales than normal because of the startup time required for the new office.
2) June-September and January have always been the best months for residential sales in College Park.

To determine his break even point and sales associate requirements, Mr. Starr made the following cost computations:

Break Even Sales

$45,000 Average Sale Price
x.05 Effective Commission Rate
$ 2,250 Average Commission Income to Company Per Sale
$ 2,250 ÷ 2 (50/50 Company Split with Sales Associates) =
$ 1,125 Average Income Available for Company Dollar per Sale
Average Income Per Sale times Unknown Number of Sales = Projected Overhead Branch Office

$ 1,125 x Y = $85,382
Y = 76 Sales Per Year to Break Even

Unknown Projected Income

Average Listing Price times Effective Commission Rate times Projected Number of Listings ÷ Office Commission Split = Projected Income.
$45,000 x 6% = $2,700 x 120 Listings = $324,000 ÷ 2 (50/50 split) =
$162,000 Break Even Gross Income From Sales

Desk Cost

Based on his experience Mr. Starr feels that his sales associates will average 1.5 sales or listings or a combination of the two activities per month.
$1,125 Available for Company Dollar x 1.5 = $1,687.50
$1,687.50 x 12 mos. = $20,250
$85,382 projected overhead ÷ $20,250 = 4 sales associates needed to break even

The Flexible Budget

Mr. Starr, realizing that certain types of expenditures will vary at different levels of sales, prepared a flexible budget for three different volumes of operation:

Level 1 -- 80% ($216,000) of his sales forecast
Level 2 -- $270,000 in gross income according to his sales forecast
Level 3 -- 120% ($324,000) of his sales forecast

Mr. Starr's figures are presented as follows:

EXPANSION REALTY, INC.
PRO FORMA FLEXIBLE BUDGET
PARK FOREST OFFICE
YEAR 1

	Level 1	"Target" Level 2	Level 3
Sales Revenues	$216,000	$270,000	$324,000
LESS: Distribution of Fees	118,800	148,500	178,200
Balance Available for Company Dollar	97,200	121,500	145,800
Company Dollar	97,200	121,500	145,800
LESS: Operating Expenses			
*Advertising	13,278	16,597	19,916
*Sales Promotion	6,318	7,899	9,477
**Salaries	25,188	25,188	25,188
**Communications	6,105	6,105	6,105
**Occupancy	11,320	11,320	11,320
**Operating	18,273	18,273	18,273
Total Operating Expenses	$ 80,482	$ 85,382	$ 90,279
Summary			
Company Dollar	$ 97,200	$121,500	$145,800
LESS: Operating Expenses	80,482	85,382	90,279
Owner's Return on Company Dollar	16,718	36,118	55,521
LESS: Owner's Withdrawals	0	0	0
Net Return on Investment	$ 16,718	$ 36,118	$ 55,521

*Variable Expenses

**Fixed Expenses

* Pro Forma Income Statement, Cash Flow Statement, & Balance Sheet

Mr. Starr's projected revenues and expenses with accompanying footnotes, projected receipts and disbursements with accompanying footnotes and projected balance sheet for the Park Forest Office's first year of operation is presented in the following schedules.

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* The pro forma statements in this case are for a one year period; however, it is recommended that actual projections be made for a three- to five-year period.

EXPANSION REALTY, INC.
PRO FORMA INCOME STATEMENT
PARK FOREST OFFICE
YEAR 1

PERCENT OF SALES	LINE ITEMS	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	TOTAL
	REVENUES													
	Sales Revenues													
100.0	1) Sales & Listing Fees	9000	18000	27000	36000	47250	31500	20250	15750	11250	22500	13500	18000	270000
	Total Revenues	9000	18000	27000	36000	47250	31500	20250	15750	11250	22500	13500	18000	270000
	LESS: Distribution of Fees													
41.0	2) Internal Sales Staff Commissions	3690	7380	11070	14760	19373	12915	8302	6458	4612	9225	5535	7380	110700
2.0	3) Manager's Listing Fees and Sales Commissions	180	360	540	720	945	630	405	315	225	450	270	360	5400
12.0	4) Cooperating Brokers' Commissions	1080	2160	3240	4320	5670	3780	2430	1890	1350	2700	1620	2160	32400
55.0	Total Distribution	4950	9900	14850	19800	25988	17325	11137	8663	6187	12375	7425	9900	148500
45.0	BALANCE AVAILABLE FOR COMPANY DOLLAR	4050	8100	12150	16200	21262	14175	9113	7087	5063	10125	6075	8100	121500
100.0	COMPANY DOLLAR	4050	8100	12150	16200	21262	14175	9113	7087	5063	10125	6075	8100	121500
	EXPENSES													
	Advertising													
8.0	5) Newspaper Classified	324	648	972	1296	1701	1134	729	567	405	810	486	652	9724
2.0	6) Institutional	81	162	243	324	425	284	182	142	101	202	121	163	2430
1.5	7) Direct Mail & Brochures	841	81	120	162	213	141	91	71	51	101	61	82	2015
0.0	8) Radio	0	0	0	0	0	0	0	0	0	0	0	0	0
0.0	9) Television	0	0	0	0	0	0	0	0	0	0	0	0	0
0.5	10) Yellow Pages	20	40	60	81	106	70	45	36	26	50	30	41	605
1.5	11) Other	61	121	180	243	319	211	136	108	78	151	91	124	1823
13.5	Total Advertising	1327	1052	1575	2106	2764	1840	1183	924	661	1314	789	1062	16597
	Sales Promotion													
1.0	12) Courses, Training & Conferences	41	81	120	162	213	141	91	71	51	101	61	82	1215

EXPANSION REALTY, INC.
PRO FORMA INCOME STATEMENT
PARK FOREST OFFICE
YEAR 1

PERCENT OF SALES	LINE ITEMS	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	TOTAL
2.0	13) Travel & Conventions	81	162	243	324	425	284	182	142	101	202	121	163	2430
1.0	14) Entertainment	41	81	120	162	213	141	91	71	51	101	61	82	1215
0.5	15) Contributions & Service Activities	20	40	60	81	106	70	45	36	26	50	30	44	608
1.0	16) Sales Awards & Contests	41	81	120	162	213	141	91	71	51	101	61	82	1215
0.5	17) Institutional Gifts	20	40	60	81	106	70	45	36	26	50	30	44	608
0.5	18) Other	20	40	60	81	106	70	45	36	26	50	30	44	608
6.5	Total Sales Promotion	264	525	783	1053	1382	917	590	463	332	655	394	541	7899
	Salaries													
12.0	19) Sales Manager	1215	1215	1215	1215	1215	1215	1215	1215	1215	1215	1215	1215	14580
0.0	20) Clerical	0	0	0	0	0	0	0	0	0	0	0	0	0
7.0	21) Secretarial	700	700	700	700	700	700	700	700	700	700	700	700	8400
0.0	22) Other Staff	0	0	0	0	0	0	0	0	0	0	0	0	0
1.5	23) Payroll Taxes	132	131	132	131	132	131	132	131	132	131	132	131	1578
0.5	24) Employee Benefits	52	53	52	53	52	53	52	53	52	53	52	53	630
21.0	Total Salaries	2099	2099	2099	2099	2099	2099	2099	2099	2099	2099	2099	2099	25188
	Communications													
5.0	25) Telephone	0	555	555	555	555	555	555	555	555	555	555	555	6105
0.0	26) Answering Service	0	0	0	0	0	0	0	0	0	0	0	0	0
0.0	27) Other	0	0	0	0	0	0	0	0	0	0	0	0	0
5.0	Total Communications	0	555	555	555	555	555	555	555	555	555	555	555	6105
	Occupancy													
6.0	28) Rent	610	610	610	610	610	610	610	610	610	610	610	610	7320
2.0	29) Utilities	0	200	200	200	200	200	200	200	200	200	200	200	2200
1.5	30) Janitor Services & Maintenance	150	150	150	150	150	150	150	150	150	150	150	150	1800
9.5	Total Occupancy	760	960	960	960	960	960	960	960	960	960	960	960	11320
	Operating													
	31) Licenses	3	3	3	3	3	3	3	3	3	3	3	7	40

EXPANSION REALTY, INC.
PRO FORMA INCOME STATEMENT
PARK FOREST OFFICE
YEAR 1

PERCENT OF SALES	LINE ITEMS	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	TOTAL
	32) Dues	12	12	12	12	12	12	12	12	12	12	12	18	150
0.5	33) Insurance	50	50	50	50	50	50	50	50	50	50	50	50	600
1.5	34) Legal & Accounting	150	150	150	150	150	150	150	150	150	150	150	150	1800
	35) Taxes	8	8	8	8	8	8	8	8	8	8	8	12	100
1.0	36) Equipment (Maintenance & Depr.)	80	80	80	80	80	80	80	80	80	80	80	80	960
5.0	37) Supplies	1850	400	400	400	400	400	400	400	400	400	400	400	6250
2.5	38) Postage	250	250	250	250	250	250	250	250	250	250	250	250	3000
0.0	39) Interest on Business Loans	0	0	0	0	0	0	0	0	0	0	0	0	0
0.5	40) Bad Debts (Advances to Sales Associates)	50	50	50	50	50	50	50	50	50	50	50	58	608
3.0	41) Auto Expense	250	300	300	300	300	300	300	300	300	300	300	300	3550
1.0	42) Other	100	100	100	100	100	100	100	100	100	100	100	115	1215
15.0	Total Operating	2803	1403	1403	1403	1403	1403	1403	1403	1403	1403	1403	1440	18273
70.5	Total Expenses	7253	6594	7375	8176	9163	7774	6790	6404	6010	6986	6200	6657	85382
	SUMMARY													
100.0	Company Dollar	4050	8100	12150	16200	21262	14175	9113	7087	5063	10125	6075	8100	121500
70.5	LESS: Total Expenses	7253	6594	7375	8176	9163	7774	6790	6404	6010	6986	6200	6657	85382
29.5	Owner's Return on Company Dollar	(3203)	1506	4775	8024	12099	6401	2323	683	(947)	3139	(125)	1443	36118
	LESS: Owner's Withdrawals	0	0	0	0	0	0	0	0	0	0	0	0	0
	Net Return on Investment	(3203)	1506	4775	8024	12099	6401	2323	683	(947)	3139	(125)	1443	36118

EXPANSION REALTY, INC.

Footnotes to the

Pro Forma Income Statement

Park Forest Office

Year 1

1) Sales & Listing Fees -- revenues produced by seven full-time sales associates and a branch manager from commissions received for listing and/or selling pre-owned residential properties in the southern half of College Park, Texas. Expansion Realty, Inc., will charge a 6% commission for its services. The total revenue is based on the sales forecast of listing and/or selling 120 homes with an average sales price of $45,000. An effective commission rate of 5% was used to forecast gross revenues to reflect the fact that some of the commissions will be split with cooperating brokers.

2) Internal Sales Staff Commissions -- 50% of the total commissions earned by the company will be paid to the sales associates (25% to the sales associate listing the property and 25% to the sales associate selling the property).

3) Manager's Listing Fees & Sales Commissions -- the branch manager will not actively sell but will list properties for sale when requested to by friends and former clients. It is estimated that approximately 2% of the total commission income will be produced from the branch manager's listing fees.

4) Cooperating Brokers Commissions -- fees paid to other brokers on properties listed for sale by Expansion Realty, Inc., and sold by a cooperating broker. The total commission will be split 50/50 with the cooperating broker.

5) Newspaper Classified-- the College Park News has offered special rates for frequent users of the Classified Ads in the past as follows:

	Price Per Line For		
	1 day	3 days	7 days
500 lines per year	$.81	$.79	$.76
5,000 lines per year	.71	.69	.66
10,000 lines per year	.70	.68	.65

Expansion Realty anticipates running ads for three days at a time and will use approximately 14,300 lines per year.

(14,300 lines x $.68 per line = $9,724)

6) Institutional -- 2% of the company dollar is allocated for institutional advertising.

7) Direct Mail & Brochures -- 1.5% of the company dollar is allocated for the sales associates direct mail expenses, including $800 the first month for brochures announcing the new office.

8) Radio -- No expenditures are planned for the coming year.

9) Television -- no expenditures are planned for the coming year.

10) Yellow Pages -- the company will spend $960 for a one column box advertisement that will list the telephone numbers of both offices. An additional expense of $250 is estimated for art work and the use of bold face type for the regular business telephone listing. The total expense is to be allocated 50/50 between the two offices.

11) Other -- 1.5% of the company dollar is allocated for additional opportunities to advertise that are not currently planned (i.e. billboard).

*12) Courses, Training & Conferences -- 1% of the company dollar.

*13) Travel & Conventions -- 2% of the company dollar.

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* Specific plans for sales promotion expenditures will be made after opening the branch office.

*14) Entertainment -- 1% of the company dollar.

*15) Contributions & Service Activities -- 0.5% of the company dollar.

*16) Sales Awards & Contests -- 1% of the company dollar.

*17) Institutional Gifts -- 0.5% of the company dollar.

*18) Other -- 0.5% of the company dollar.

19) Sales Manager -- the branch manager will be paid an annual salary of $14,580.00. Mr. Starr will not be paid an additional salary from the branch office but will make cash withdrawals from profits.

20) Clerical -- none.

21) Secretarial -- the branch will have one full-time secretary who will also do the bookkeeping. Her annual salary will be $8,400.00.

22) Other Staff -- none.

23) Payroll Taxes -- Social Security (FICA) is 5.85% of the first $16,500 of an employees gross wages. Federal Unemployment Tax (FUTA) is 0.5% of taxable wages up to $4,200 and State Unemployment Tax (SUTA) will be figured at 2.7% of taxable wages up to $4,200 but may be decreased depending on the unemployment experience of the company. The payroll taxes apply only to the branch manager and secretary, as all sales associates are independent contracters.

Branch Manager -- $14,000		
FICA @ 5.85% of $14,000 =	$819	
FUTA & SUTA @ 3.2% of $4,200	134	
TOTAL TAX =		$ 953
Secretary -- $8,400		
FICA @ 5.85% of $8,400 =	$491	
FUTA & SUTA @ 3.2% of $4,200 =	134	
TOTAL TAX =		$ 625
TOTAL PAYROLL TAXES		$ 1,578

24) Employee Benefits -- the company will pay the premiums for life and health insurance for the branch manager and secretary.

	Life	Health	Total
Branch Manager	$120	$240	$360
Secretary	90	180	270
TOTAL			$630

25) Telephone-- four lines with nine extensions will cost $255.00 per month. $300.00 per month is allocated for long distance calls.

26) Answering Service -- none

27) Other -- none

28) Rent -- Expansion Realty, Inc., can sign a three-year lease for 1,500 square feet at $4.88 per square foot per year in the Park Forest Shopping Center. The rent does not include utilities or janitorial service. A lease deposit of one month's rent ($610.00) is required. The space is to be leased "as is" and is suitable for a real estate brokerage operation.

29) Utilities -- water and electricity are expected to average $200.00 per month according to estimates provided by the utility companies.

30) Janitor Service & Maintenance -- the branch manager's teen-age son has been contracted to clean the office and make minor repairs for $150.00 per month.

31) Licenses -- the branch manager's real estate broker's license fee of $40.00 will be paid by the company. All sales associates are independent contractors and will pay their own license fees.

32) Dues -- the College Park Board of Realtors yearly dues are $200.00. The College Park Chamber of Commerce yearly dues are $100.00. The total expense is to be allocated 50/50 between the two offices.

33) Insurance -- the annual premium, one year coverage for real estate error and omission insurance is $300.00; and an umbrella clause, standard workmen's compensation, commercial general liability and an auto liability non-ownership policy is $900.00 annually. The total expense is to be allocated 50/50 between the two offices.

34) Legal & Accounting -- it is anticipated that the office will have only an occasional need for an attorney. The estimate is one hour per month at $50.00 per hour for an annual allocation of $600.00. The company's accounting firm will charge $100.00 per month to prepare the financial statements for the branch office.

35) Taxes -- it is estimated that the company's state franchise tax will be $200.00. This expense is to be allocated 50/50 between the two offices.

36) Equipment -- using 10-year, straight-line depreciation on the $7,200 expenditure for furniture and equipment and $1,200 for the outdoor office sign, the annual allocation is $840.00. Repairs are estimated at $10.00 per month.

37) Supplies -- office supplies, printing, maps, plats and photography will be budgeted at $400.00 per month. An additional $1,450 is budgeted for start-up expenses including supplies, stationery and signs.

38) Postage -- the cost of all office mailing is budgeted at $250.00 per month.

39) Interest on Business Loans -- none. The initial outlay for the branch office will be financed from current operations.

40) Bad Debts (Advances to Sales Associates) -- 0.5% of the company dollar is allocated for this expense.

41) Auto Expense -- a new Mercury will be leased for the branch manager from College Park Auto Leasing Ltd. The lease will be for three years at $250.00 per month including insurance and maintenance. The cost of gasoline is estimated at $50.00 per month.

42) Other -- 1% of the company dollar is budgeted for miscellaneous operating expenses.

EXPANSION REALTY, INC.

Footnotes to the

Pro Forma Cash Flow Statement

Park Forest Office

Year 1

Receipts

Mr. Starr plans to contribute $11,610 in cash from operations to pay for the following start-up expenses for the Park Forest Office:

Item		Amount
Announcement Brochures		$ 800
Supplies		
Miscellaneous Office	$500	
Stationery	350	
Signs	600	
		$1,450
Furniture & Equipment		7,200
Outdoor Office Sign		1,200
Deposits		
Rent	$610	
Utilities	150	
Telephone	200	
		960
TOTAL		$11,610

EXPANSION REALTY, INC.
PRO FORMA CASH FLOW STATEMENT
PARK FOREST OFFICE
YEAR 1

LINE ITEMS	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	TOTAL
RECEIPTS													
Owner's Capital Contribution (If Any)	11610	0	0	0	0	0	0	0	0	0	0	0	11610
Loans to Company (If Any)	0	0	0	0	0	0	0	0	0	0	0	0	0
Proceeds From Sale of Stock (If Any)	0	0	0	0	0	0	0	0	0	0	0	0	0
Sales Receipts													
1) Sales & Listing Fees	9000	18000	27000	36000	47250	31500	20250	15750	11250	22500	13500	18000	270000
Total Receipts	20610	18000	27000	36000	47250	31500	20250	15750	11250	22500	13500	18000	281610
LESS: Distribution of Fees													
2) Internal Sales Staff Commissions	3690	7380	11070	14760	19373	12915	8302	6458	4612	9225	5535	7380	110700
3) Manager's Listing Fees & Sales Commissions	180	360	540	720	945	630	405	315	225	450	270	360	5400
4) Cooperating Brokers' Commissions	1080	2160	3240	4320	5670	3780	2430	1890	1350	2700	1620	2160	32400
Total Distribution	4950	9900	14850	19800	25988	17325	11137	8663	6187	12375	7425	9900	148500
BALANCE AVAILABLE FOR COMPANY DOLLAR	15660	8100	12150	16200	21262	14175	9113	7087	5063	10125	6075	8100	133110
COMPANY DOLLAR DISBURSEMENTS	15660	8100	12150	16200	21262	14175	9113	7087	5063	10125	6075	8100	133110
Advertising													
5) Newspaper Classified	324	648	972	1296	1701	1134	729	567	405	810	486	652	9724
6) Institutional	81	162	243	324	425	284	182	142	101	202	121	163	2430
7) Direct Mail & Brochures	841	81	120	162	213	141	91	71	51	101	61	82	2015
8) Radio	0	0	0	0	0	0	0	0	0	0	0	0	0
9) Television	0	0	0	0	0	0	0	0	0	0	0	0	0
10) Yellow Pages	0	0	0	0	0	605	0	0	0	0	0	0	605
11) Other	61	121	180	243	319	211	136	108	78	131	91	124	1823
Total Advertising	1307	1012	1515	2025	2658	2375	1138	888	635	1264	759	1021	16597

EXPANSION REALTY, INC.
PRO FORMA CASH FLOW STATEMENT
PARK FOREST OFFICE
YEAR 1

LINE ITEMS	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	TOTAL
Sales Promotion													
12) Courses, Training & Conferences	41	81	120	162	213	141	91	71	51	101	61	82	1215
13) Travel & Conventions	81	162	243	324	425	284	182	142	101	202	121	163	2430
14) Entertainment	41	81	120	162	213	141	91	71	51	101	61	82	1215
15) Contributions & Service Activities	20	40	60	81	106	70	45	36	26	50	30	44	608
16) Sales Awards & Contests	41	81	120	162	213	141	91	71	51	101	61	82	1215
17) Institutional Gifts	20	40	60	81	106	70	45	36	26	50	30	44	608
18) Other	20	40	60	81	106	70	45	36	26	50	30	44	608
Total Sales Promotion	264	525	783	1053	1382	917	590	463	332	655	394	541	7899
Salaries													
19) Sales Manager	1215	1215	1215	1215	1215	1215	1215	1215	1215	1215	1215	1215	14580
20) Clerical	0	0	0	0	0	0	0	0	0	0	0	0	0
21) Secretarial	700	700	700	700	700	700	700	700	700	700	700	700	8400
22) Other Staff	0	0	0	0	0	0	0	0	0	0	0	0	0
23) Payroll Taxes	0	0	0	526	0	0	526	0	0	526	0	0	1578
24) Employees Benefits	630	0	0	0	0	0	0	0	0	0	0	0	630
Total Salaries	2545	1915	1915	2441	1915	1915	2441	1915	1915	2441	1915	1915	25188
Communications													
25) Telephone	0	555	555	555	555	555	555	555	555	555	555	555	6105
26) Answering Service	0	0	0	0	0	0	0	0	0	0	0	0	0
27) Other	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Communications	0	555	555	555	555	555	555	555	555	555	555	555	6105
Occupancy													
28) Rent	610	610	610	610	610	610	610	610	610	610	610	610	7320
29) Utilities	0	200	200	200	200	200	200	200	200	200	200	200	2200

ENPANSION REALTY, INC.
PRO FORMA CASH FLOW STATEMENT
PARK FOREST OFFICE
YEAR 1

LINE ITEMS	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	TOTAL
30) Janitor Service & Maintenance	150	150	150	150	150	150	150	150	150	150	150	150	1800
Total Occupancy	760	960	960	960	960	960	960	960	960	960	960	960	11320
Operating													
31) Licenses	0	0	0	0	0	0	40	0	0	0	0	0	40
32) Dues	0	0	0	50	0	0	0	0	0	100	0	0	150
33) Insurance	0	0	0	0	0	0	0	0	0	600	0	0	600
34) Legal & Accounting	150	150	150	150	150	150	150	150	150	150	150	150	1800
35) Taxes	0	0	0	0	0	0	0	0	100	0	0	0	100
36) Equipment	8410	10	10	10	10	10	10	10	10	10	10	10	8520
37) Supplies	1850	400	400	400	400	400	400	400	400	400	400	400	6250
38) Postage	250	250	250	250	250	250	250	250	250	250	250	250	3000
39) Interest on Business Loans	0	0	0	0	0	0	0	0	0	0	0	0	0
40) Bad Debts (Advances to Sales Associates)	50	50	50	50	50	50	50	50	50	50	50	58	608
41) Deposits	960	0	0	0	0	0	0	0	0	0	0	0	960
42) Auto Expense	250	300	300	300	300	300	300	300	300	300	300	300	3550
43) Other	100	100	100	100	100	100	100	100	100	100	100	115	1215
Total Operating	12020	1260	1260	1310	1260	1260	1300	1260	1360	1960	1260	1283	26793
Total Disbursements	16896	6227	6988	8344	8730	7982	6984	6041	5757	7835	5843	6275	93902
Total Cash Flow	(1236)	1873	5162	7856	12532	6193	2129	1046	(694)	2290	232	1825	39208
beginning Cash Balance	0	(1236)	637	5799	13655	26187	32380	34509	35555	34861	37151	37383	
Ending Cash Balance	(1236)	637	5799	13655	26187	32380	34509	35555	34861	37151	37383	39208	

1) Sales & Listing Fees -- commissions for the sales of homes are paid at the closing of the sale.

2) Internal Sales Staff Commissions -- commissions will be paid to sales associates on the closing of the sale.

3) Manager's Listing Fees & Sales Commissions -- any commissions will be paid to the manager upon the closing of the sale.

4) Cooperating Brokers' Commissions -- commissions will be paid to cooperating brokers upon the closing of the sale.

5) Newspaper Classified -- paid immediately following the billing.

6) Institutional -- paid immediately following the billing.

7) Direct Mail & Brochures -- initial outlay of $800.00 expenses in first month of operations (April). Additional purchases paid upon receipt of bill.

8) Radio -- none

9) Television -- none

10) Yellow Pages -- paid in advance for one year. The new directories are available in October -- the bill is due by September 15th.

11) Other -- will be paid as incurred.

12) Courses, Training & Conferences -- will be paid as incurred.

13) Travel & Conventions -- will be paid as incurred.

14) Entertainment -- will be paid as incurred.

15) Contributions & Service Activities -- will be paid as incurred.

16) Sales Awards & Contests -- will be paid as incurred.

17) Institutional Gifts -- will be paid as incurred.

18) Other -- will be paid as incurred.

19) Sales Manager -- salary will be paid during the month that it is earned.

20) Clerical -- none

21) Secretarial -- salary will be paid during the month that it is earned.

22) Other Staff -- none

23) Payroll Taxes -- Social Security (FICA), FUTA and SUTA are paid in the month following the end of a quarter.

24) Employee Benefits -- paid in advance for one year.

25) Telephone -- telephone bills are paid in the following month. See line item 41 concerning the telephone deposit.

26) Answering Service -- none

27) Other -- none

28) Rent -- rent is paid at the beginning of the month. See line item 41 concerning the rent deposit.

29) Utilities -- water and electricity bills are paid in the following month. See line item 41 concerning utility deposits.

30) Janitor Service & Maintenance -- paid weekly

31) Licenses -- the branch manager's real estate broker's license renewal fee will be paid in October.

32) Dues -- the College Park Board of Realtors dues are due in January. The College Park Chamber of Commerce dues are payable in July.

33) Insurance -- paid in advance for one year by the company. Park Forest Office allocation to be expensed in January.

34) Legal & Accounting -- paid upon receipt of bill.

35) Taxes -- paid in December.

36) Equipment-- initial outlay of $8,400.00 expensed in first month of operations (April) for furniture, equipment and an outdoor office sign. Repairs paid for upon receipt of bill.

37) Supplies -- initial outlay of $1,450.00 including stationery and signs expensed

in first month of operations (April). Additional purchases paid upon receipt of bill.

38) Postage -- paid upon purchase.

39) Interest on Business Loans -- none

40) Bad Debts (Advances to Sales Associates) -- expensed as incurred.

41) Deposits -- initial outlay as follows:

rent deposit	$610.00
electricity deposit	100.00
water deposit	50.00
telephone deposit	200.00
TOTAL	$960.00

42) Auto Expense -- auto lease paid for at the beginning of each month. Gasoline purchases paid for upon receipt of billing.

43) Other -- will be paid as incurred.

EXPANSION REALTY, INC.
PRO FORMA BALANCE SHEET
PARK FOREST OFFICE
END OF YEAR 1

Assets		
Current Assets		
Cash	$39,208	
Total Current Assets		$39,208
Fixed Assets		
Furniture & Equipment	7,200	
Less Accumulated Depreciation	(720)	
Outdoor Office Sign	1,200	
Less Accumulated Depreciation	(120)	
Total Fixed Assets		7,560
Other Assets		
Deposits	960	
Total Other Assets		960
Total Assets		$47,728
Liabilities		
Current Liabilities	$ 0	
Long-term Liabilities	0	
Total Liabilities		$ 0
Equity		
Paid in Capital	$11,610	
Retained Earnings	36,118	
Total Equity		$47,728
Total Liabilities/Equity		$47,728

APPENDIX C

PRO FORMA INCOME STATEMENT
(Worksheet)
19x_

PERCENT OF SALE	LINE ITEMS	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONTH 6
	REVENUES						
	Sales Revenues						
100.0	1) Sales & Listing fees						
	Total Revenues						
	LESS: Distribution of Fees						
41.0	2) Internal Sales Staff Commissions						
2.0	3) Manager's Listing Fees & Sales Commissions						
12.0	4) Cooperating Brokers' Commissions						
55.0	Total Distribution						
45.0	BALANCE AVAILABLE FOR COMPANY DOLLAR						
100.0	COMANY DOLLAR						
	EXPENSE						
	Advertising						
8.0	5) Newspaper Classified						
2.0	6) Institutional						
1.5	7) Direct Mail & brochures						
0.0	8) Radio						
0.0	9) Television						
0.5	10) Yellow Pages						
1.5	11) Other						
13.5	Total Advertising						
	Sales Promotion						
1.0	12) Courses, Training & Conferences						

MONTH 7	MONTH 8	MONTH 9	MONTH 10	MONTH 11	MONTH 12	TO-TAL

PRO FORMA INCOME STATEMENT
(Worksheet)
19x_

PERCENT OF SALE	LINE ITEMS	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONTH 6
2.0	13) Travel & Conventions						
1.0	14) Entertainment						
0.5	15) Contributions, Service Activities						
1.0	16) Sales Awards & Contests						
0.5	17) Institutional Gifts						
0.5	18) Other						
6.5	Total Sales Promotion						
	Salaries						
12.0	19) Sales Manager						
0.0	20) Clerical						
7.0	21) Secretarial						
0.0	22) Other Staff						
1.5	23) Payroll Taxes						
0.5	24) Employee Benefits						
21.0	Total Salaries						
	Communications						
5.0	25) Telephone						
0.0	26) Answering Service						
0.0	27) Other						
5.0	Total Communications						
	Occupancy						
6.0	28) Rent						
2.0	29) Utilities						
1.5	30) Janitor Services & Maintenance						
9.5	Total Occupancy						
	Operating						
	31) Licenses						

MONTH 7	MONTH 8	MONTH 9	MONTH 10	MONTH 11	MONTH 12	TO-TAL

PRO FORMA INCOME STATEMENT
(Worksheet)
19x_

PERCENT OF SALE	LINE ITEMS	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONT 6
	32) Dues						
0.5	33) Insurance						
1.5	34) Legal & Accounting						
	35) Taxes						
1.0	36) Equipment (Maintenance & Depr.)						
5.0	37) Supplies						
2.5	38) Postage						
0.0	39) Interest on Business Loans						
0.5	40) Bad Debts (Advances to Sales Associates)						
3.0	41) Auto Expense						
1.0	42) Other						
15.0	Total Operating						
70.5	Total Expenses						
	SUMMARY						
100.0	Company Dollar						
70.5	LESS: Total Expenses						
29.5	Owner's Return on Company Dollar						
	LESS: Owner's Withdrawals						
	Net Return on Investment						

MONTH 7	MONTH 8	MONTH 9	MONTH 10	MONTH 11	MONTH 12	TO-TAL

PRO FORMA CASH FLOW STATEMENT
(Worksheet)
19x_

LINE ITEMS	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONT 6
RECEIPTS						
Owner's Capital Contribution (If Any)						
Loans to Company (If Any)						
Proceeds From Sale of Stock (If Any)						
Sale Receipts						
1) Sales & Listing Fees						
Total Receipts						
LESS: Distribution of Fees						
2) Internal Sales Staff Commission						
3) Manager's Listing Fees & Sales Commissions						
4) Cooperating Broker's Commissions						
Total Distribution						
BALANCE AVAILABLE FOR COMPANY DOLLAR						
COMPANY DOLLAR DISBURSEMENTS						
Advertising						
5) Newspaper Classified						
6) Institutional						
7) Direct Mail & Brochures						
8) Radio						
9) Television						
10) Yellow Pages						
11) Other						
Total Advertising						

MONTH 7	MONTH 8	MONTH 9	MONTH 10	MONTH 11	MONTH 12	TOTAL

PRO FORMA CASH FLOW STATEMENT
(Worksheet)
19x_

LINE ITEMS	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONTH 6
Sales Promotion						
12) Courses, Training & Conferences						
13) Travel & Conventions						
14) Entertainment						
15) Contributions, Service Activities						
16) Sales Awards & Contests						
17) Institutional Gifts						
18) Other						
Total Sales Promotion						
Salaries						
19) Sales Manager						
20) Clerical						
21) Secretarial						
22) Other Staff						
23) Payroll Taxes						
24) Employees Benefits						
Total Salaries						
Communications						
25) Telephone						
26) Answering Service						
27) Other						
Total Communications						
Occupancy						
28) Rent						
29) Utilities						

MONTH 7	MONTH 8	MONTH 9	MONTH 10	MONTH 11	MONTH 12	TOTAL

PRO FORMA CASH FLOW STATEMENT
(Worksheet)
19x_

LINE ITEMS	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONTH 6
30) Janitor Service & Maintenance						
Total Occupancy						
Operating						
31) Licenses						
32) Dues						
33) Insurance						
34) Legal & Accounting						
35) Taxes						
36) Equipment						
37) Supplies						
38) Postage						
39) Interest on Business Loans						
40) Bad Debts (Advances to Sales Associates)						
41) Deposits						
42) Auto Expense						
43) Other						
Total Operating						
Total Disbursements						
Total Cash Flow						
Beginning Cash Balance						
Ending Cash Balance						

MONTH 7	MONTH 8	MONTH 9	MONTH 10	MONTH 11	MONTH 12	TOTAL